The Contributions of Historic Preservation to Housing and Economic Development

David Listokin, Barbara Listokin, and Michael Lahr
Rutgers University

Abstract

Historic preservation contributes greatly to housing and economic development. Historic preservation has produced almost 250,000 housing units through use of the federal historic rehabilitation tax credit. Additionally, heritage tourism is a multibillion-dollar industry, and preservation projects help further community revitalization.

Historic preservation also has a downside. Preservation's growing popularity may dilute its imperative and market prowess, and some argue it is used to thwart new development. Preservation requirements may impede affordable housing production and displace area residents. These undesirable consequences are not givens, however. Preservationists are working to become more flexible, and we suggest ways to practice historic preservation while mitigating some of its negative consequences—for example, tax credit changes, more flexible building codes, and a "tiered" system of designating historic properties at varying levels of significance.

Keywords: Development/revitalization; Preservation; Gentrification

Introduction

In 1849 a New York state legislative committee argued that Hasbrouck House, George Washington's headquarters in Newburgh, should be publicly purchased, because this property was "associated . . . with many delightful reminiscences with our early history and if the visitor has an American heart in his bosom he will feel himself a better man [and] his patriotism will kindle with deeper emotion" (New York Legislature 1849). Almost a century and a half later, the rhetoric for preservation is less florid and more "bottom line–oriented"—to wit, "economics takes its rightful place as one of the pillars upon which the preservation ethic is based" (Rypkema 1995a). In a similar tone, the Community Partners Program, a recent initiative by the National Trust for Historic Preservation, aims to demonstrate the "effectiveness of preservation-based community development" (National Trust for Historic Preservation 1998a, 1). In a survey of economic development tools in more than 300 cities, historic preservation was cited as the seventh (of 45) most often used revitalization strategy (Douthat 1994).

This article explores the contributions of historic preservation to housing and economic development.[1] It focuses on areas that more readily lend themselves to quantification: rehabilitation, housing, heritage tourism, and downtown revitalization. We find that the contributions in these areas are all-important and, accordingly, that historic preservation is a key housing and economic development strategy. Historic preservation should be applied more broadly, not only because of its cultural and aesthetic benefits, but because it is such a powerful tool for fostering housing and economic development. At the same time, preservation can negatively affect these same areas; therefore, revisions should be made to the current preservation philosophy and methods of implementation.

Before beginning, definitions are necessary. Some have argued that all buildings are historic unless proven otherwise (Morton 1992) and all activities supportive of historic properties thus denoted are, by definition, preservation. In that global view, all work done on practically all existing buildings would constitute historic preservation. We will adhere to a more focused, traditional definition. *Historic properties* are buildings, districts, and other resources designated on national, state, and/or local government historic registers. To be placed on a register, a resource must have historic, architectural, social, archaeological, and/or other qualities. The preservation of these resources includes stabilization, rehabilitation, restoration, and other supportive activities. Admittedly, there is a broader conceptualization of what is meant by *historic preservation*. For example, many protections are afforded to properties eligible for but not officially listed on the National Register of Historic Places. We focus here, however, on officially designated properties—that is, those resources already on a national, state, and/or local register—because of the near impossibility of quantifying activity (e.g., rehabilitation) in the "eligible for" but not designated category. Thus, we consider rehabilitation in a locally designated district to be an example of historic preservation while renovation of nondesignated buildings located outside the district is not (even though the latter work might be encouraged by the district's historic preservation program). Finally, *housing and economic development* will be

[1] Numerous studies on this issue have considered such multiple and interconnected impacts of preservation as rehabilitation, housing creation, heritage tourism, downtown invigoration, property value appreciation, neighborhood identity and cohesiveness, and combating sprawl (Advisory Council on Historic Preservation 1979; Avault and Van Buren 1985; Center for Business and Economic Research 1988; Center for Business and Economic Studies 1986; Economic Research Associates 1980; Fletcher 1993; Gale 1991; Government Finance Officers Association 1995; Hammer, Siler, George Associates 1990; Leithe 1991; Moe and Wilkie 1997; National Trust for Historic Preservation 1982; Oldham 1990; Preservation Alliance of Virginia 1996; Robbins 1994; Rypkema 1994, 1995a, 1995b; Sanderson 1994; University of Rhode Island 1993; Wagner 1993; Wonjo 1991).

broadly defined to encompass shelter provision, neighborhood revitalization, and community improvement with an emphasis on the financial and physical sectors.

The article proceeds as follows. To familiarize readers with the historic preservation movement in the United States and its current major programs, we begin with a brief historical and programmatic overview. Next, preservation's contributions to rehabilitation, housing, heritage tourism, and downtown revitalization are discussed, followed by notation of some of the possible adverse effects of preservation on the community (e.g., displacement) and consideration of how preservationists are working to meliorate negative consequences. The article concludes with a summary of consequences and some recommendations for fostering preservation's contribution to housing and economic development.

Historical overview of historic preservation programs and activities in the United States

Until almost the mid–twentieth century, preservation sentiment was alien to an American society with a reverence for all things new. There were but a handful of exceptions. In 1816 the city of Philadelphia purchased Independence Hall, which had been slated for demolition, and Mount Vernon was saved by a private women's group in the 1860s (Hosmer 1965).

Private philanthropy from the Rockefeller family helped reconstruct Colonial Williamsburg in the mid-1920s (Greiff 1971). In the mid-1930s, the Depression and the attendant governmental economic pump-priming response spurred some federal archival and preservation actions, such as the Historic American Buildings Survey, and restoration work at Yorktown and other battlefields (Murtagh 1988, 56). And from the 1930s to the 1950s, a handful of communities, most notably New Orleans and Charleston (South Carolina), established local preservation commissions to identify and protect selected historic districts (Listokin 1985, 32).

As noted, however, these preservation activities were the exception. More typical was destruction of even acknowledged historic landmarks. Pennsylvania Station in New York City is a prime example; this important structure was demolished and replaced by a lackluster skyscraper and a new incarnation of Madison Square Garden in 1965 (Whitehill 1966). In fact, federal programs, ranging from urban renewal to the interstate highway system, fueled the demolition of the historic legacy (Jacobs 1961). Seattle's Pioneer Square, Boston's Quincy Market, and New York's SoHo were almost lost to urban renewal (Gratz 1994, xxvii); many equally prominent areas were not saved.

Partly in reaction to the widespread loss of historic places (often governmentally aided) and growing societal environmental sensitivity, a preservation system developed by the 1960s. At the federal level, the National Historic Preservation Act (NHPA) of 1966 created a National Register of Historic Places and a review process (Section 106 of the NHPA) to evaluate federal undertakings that threatened National Register resources. (The National Register is administered by the National Park Service.) The NHPA also established the Advisory Council for Historic Preservation, charged with, among other responsibilities, coordinating Section 106. Complementing the NHPA was other federal preservation legislation, such as Section 4(f) of the 1966 Transportation Act, which guards against federal transportation projects "using" historic resources unless there is "no feasible or prudent alternative," and the 1969 National Environmental Policy Act (NEPA), which requires impact assessments of major federal actions affecting the environment, including historic resources.

Parallel actions commenced at the state and local levels during this period. With federal funds from NHPA, State Historic Preservation Offices (SHPOs) were established. The SHPOs helped identify candidates to be placed on the national as well as state registers. Many states further enacted "mini-106" and "mini-NEPA" procedures to evaluate state and local government actions threatening properties on the state or local registers. Some states (e.g., Florida and Minnesota) enacted "mini-4(f)" protections. For instance, demolition of a historic hotel in downtown Hibbing, MN, was stopped on the basis that there was a "feasible and prudent alternative" to its destruction—namely, preservation (Beaumont 1996a, 57).

Of great significance was the establishment of local preservation commissions (LPCs). The LPCs would conduct surveys to identify historic resources and then act to designate those resources as landmarks (Cassity 1996). Once designated, the landmarks could not be demolished or their facades altered in a fashion not historically appropriate without the approval of the LPC; at the least, these actions would be delayed or commented on by the LPC (Cox 1997; Duerksen 1983; Listokin 1985). LPCs are active throughout the United States; such local action is, however, more the exception than the rule. When in place, the LPC actions are significant, because although federal and state regulations typically focus on governmental actions that might threaten historic resources, for the most part they are not directed at private actions by the owners of these resources. LPC activities, by contrast, regulate such private actions (Fowler 1976; Listokin 1985).

Also of note were new tax regulations and other policies that fostered preservation. Until the 1970s, federal tax law discouraged preservation. This began to change under the 1976 Tax Act, and significant historic preservation tax credits were added by the 1981 Economic Recovery Tax Act (ERTA). While the 1986 Tax Reform Act (TRA) reduced these ERTA tax credit benefits, they still are used, as will be noted shortly. Parallel to these federal actions, numerous state and local governments authorized income and property tax incentives for historic preservation (Beaumont 1996a, 89). Preservation also benefited from the federal Intermodal Service Transportation Efficiency Act (ISTEA) of 1991, as projects ranging from restoring historic train stations to rehabilitating downtown hotels near those stations secured multi-million-dollar ISTEA grants (Costello 1996; Dawson 1996).

Even though there have been a number of programs encouraging historic preservation, as we outline here and in table 1, in practice, some legislation accomplishes little. The 1954 Housing Act amended the urban renewal program so that it could be used to improve existing housing; yet urban renewal continued to eliminate many historic neighborhoods (Listokin 1990). The 1978 Executive Order 12072 mandated that federal agencies give first consideration to central business district (CBD) locations for their office and other space needs. In practice, this CBD mandate was often ignored as agencies sought out suburban and exurban locations. Executive Order 13006 was recently (1996) promulgated to reestablish an urban and historic priority for federal facilities; time will tell how effective it will be in promoting preservation.

Yet change *has* occurred. The most important preservation programs, such as the NHPA, NEPA, tax credits, ISTEA, and especially LPC activities, have been in place for only one to three decades. Nonetheless, in that relatively short span, there have been significant increases in preservation activity—especially relative to the largely preservation-antithetical record of much of American history. The following statistics are illustrative. At its commencement in the mid-1960s, there were 1,204 listings on the National Register of Historic Places (NRHP); today there are almost 65,000 (table 2). An NRHP "listing" can be a historic district with hundreds if not thousands of buildings; the count of NRHP buildings is thus far higher than the listings might indicate. As of September 1997, buildings listed in, or contributing to, historic districts on the NRHP totaled 963,059, with an average of 30,000 buildings being added annually (U.S. Department of the Interior 1997a, 3). The total of buildings listed on state and local historic registers exceeds that of the NRHP; statistics cited by Oldham (1990) indicate that there are about 3 million structures in the United States listed in the NRHP or state inventories.

Table 1. **Historic Overview of Federal Legislation Affecting Historic Preservation**

Year	Legislation	Activity (Partial)
1906	Antiquities Act	Designates and protects historic “monuments”; regulates excavations
1916	National Park Service (NPS) established	NPS “houses” federal preservation activities (e.g., National Register)
1933	Historic American Buildings Survey (HABS)	Survey and measure drawings
1935	Historic Sites Act (HSA)	National Survey of Historic Sites and Buildings (HSA is the basis of HABS, Historic American Engineering Record [HAER], and National Historic Landmarks [NHLs])
1949	Housing Act (Urban renewal)	Federally subsidized demolition
1949	National Trust for Historic Preservation	Congressionally chartered nonprofit to facilitate preservation
1954	Housing Act	Federal housing funds can be used for rehabilitation and limited preservation planning (Section 701)
1956	Federal Aid Highway Act of 1956	Federally subsidized highway construction; prohibits use of historic lands unless no feasible alternative
1960	Reservoir Salvage Act	Survey and document archaeological resources before dam construction
1961	Housing Act	Funds open space and urban beautification; amended in 1966 to specifically provide grants for historic preservation
1966	National Historic Preservation Act (NHPA)	Key federal preservation law; establishes: National Register of Historic Places; Section 106 review of federal actions threatening Register properties; Advisory Council on Historic Preservation (ACHP)
1966	Department of Transportation Act	Section 4(f)—transportation projects shouldn’t use historic or park resources unless there is “no feasible or prudent alternative”
1966	Demonstration Cities and Metropolitan Development Act	Urban renewal funds can be used for preservation
1969	National Environmental Policy Act (NEPA)	Prepare environmental impact report on “major federal actions signficiantly affecting environment,” including historic resources
1970	General Authorities Act of 1970	Prepare annual report (Section 8 report) identifying threatened NHLs
1971	Executive Order 11593	Federal agencies survey, nominate properties to National Register
1972	Surplus Real Property Act	Allows transfer of surplus federal properties to state/local governments for public/other purposes
1974	Archaeological and Historic Preservation Act (AHPA)	Extends Reservoir Salvage Act to all federal projects; up to 1 percent of project funds can be used for archaeological recovery
1974	Amtrak Improvement Act	Funds for historic train stations
1974	Housing and Community Development Act	Consolidates categorical community development monies into block grants, such as the Community Development Block Grant (CDBG); CDBG and other funds can be used for preservation

Table 1. **Historic Overview of Federal Legislation Affecting Historic Preservation** *(Continued)*

Year	Legislation	Activity (Partial)
1976	Mining in the National Parks Act	Requires ACHP consultation to protect NHLs threatened by surface mining
1976	Public Buildings Cooperative Use Act (PBCUA)	General Services Administration should acquire space in historic properties unless such space is not feasible and prudent
1976	Tax Act	Allows accelerated depreciation for rehabilitation; assesses tax penalties for demolition of historic properties (the latter were rescinded and the former were superseded by 1981 ERTA and 1986 TRA)
1977	Surface Mining Control and Reclamation Act	Guards against adverse impacts to historic resources in surface mining
1978	Executive Order 12072	Underscores policies set forth in PBCUA and directs federal agencies to give first consideration in their space needs to CBD locations
1978	American Indian Religious Freedom Act (AIRFA)	Guarantees access of Native Americans to sacred places
1978, 1980, 1986	Tax/Revenue Acts	Permit income and estate tax deductions for donation of conservation easements; income tax benefits for property rehabilitation
1979	Archaeologic Resources Protection Act (ARPA)	Protects archaeological resources on federal/Native American lands; permit system for archaeological excavation on federal lands; prohibits trafficking in archaeological resources (from public/private lands)
1980	NHPA Amendments	Codifies Executive Order 11593, “grandfathers” NHLs, requires owner consent for National Register listing, establishes certified local governments (CLGs)
1981	Economic Recovery Tax Act (ERTA)	Establishes tax credits for historic preservation/commercial rehabilitation
1986	Tax Reform Act (TRA)	Reduces/limits tax credits for historic preservation-commercial rehabilitation, establishes low-income housing tax credit (LIHTC)
1990	Americans with Disabilities Act (ADA)	Mandates accessibility to disabled
1990	Native American Graves Protection (NAGP)	Consultation with Native Americans about excavation of graves; repatriation of remains in museums
1991	Intermodal Service Transportation Efficiency Act (ISTEA)	Encourages “intermodalism”; Transportation Enhancement Activity (TEA) funds can be used for historic preservation improvements
1991	Legacy Resources Management Program	Department of Defense should enhance its cultural and natural resource stewardship
1992	NHPA Amendments	Enhances roles of Indian tribes in 106 process; penalizes “anticipatory demolition” by federal agencies; mandates greater federal agency stewardship of their historic properties
1996	ACHP revised 106 regulations	Streamline and add greater flexibility to 106 review
1996	Executive Order 13006	Locate federal facilities in established urban areas, with first consideration to historic properties
1996	Executive Order 13007	Avoid adversely affecting and accommodate access to Indian sacred sites

Table 2. **Historic Register Listings, 1966 to 1997**

Fiscal Year	Annual Listings on National Register of Historic Places (Entries)	Cumulative Listings on National Register of Historic Places (Entries)	Annual Advisory Council Section 106 Review (Cases)	Cumulative Advisory Council Section 106 Review (Cases)	Local Historic District Commissions	Annual Historic Preservation Fund (Millions of Dollars)	Cumulative Historic Preservation Fund (Millions of Dollars)	Annual Rehab Tax Credit Investment (Millions of Dollars)	Cumulative Rehab Tax Credit Investment (Millions of Dollars)	Annual Tax Credit Projects Approved	Cumulative Tax Credit Projects Approved
1966					100						
1967			0	0							
1968	1,204	1,204	5	5		0.3	0.3				
1969	359	1,563	22	27		0.1	0.4				
1970	832	2,395	57	84		1.0	1.4				
1971	1,026	3,421	81	165		6.0	7.4				
1972	1,533	4,954	152	317		6.0	13.4				
1973	2,162	7,116	311	628		7.5	20.9				
1974	2,151	9,267	689	1,317		11.5	32.4				
1975	1,987	11,254	1,104	2,421		20.0	52.4				
1976	2,284	13,538	2,263	4,684	492	24.8	77.2				
1977	1,563	15,101	2,369	7,053		17.5	94.7				
1978	3,120	18,221	1,759	8,812	578	45.0	139.7	140	140	512	512
1979	2,783	21,004	2,264	11,076		60.0	199.7	300	440	635	1,147
1980	3,027	24,031	1,623	12,699		55.0	254.7	346	786	614	1,761
1981	518	24,549	2,700	15,399		26.0	280.7	738	1,524	1,375	3,136
1982	3,140	27,689	1,827	17,226	832	25.4	306.1	1,128	2,652	1,802	4,938
1983	4,525	32,214	2,261	19,487	1,000	51.0	357.1	2,165	4,817	2,572	7,510
1984	3,814	36,028	2,241	21,728		27.5	384.6	2,123	6,940	3,214	10,724
1985	994	37,022	1,094	22,822		25.5	410.1	2,416	9,356	3,117	13,841
1986	3,401	40,423	1,400	24,222		23.7	433.8	1,661	11,017	2,964	16,805
1987	2,498	42,921	2,453	26,675		24.3	458.1	1,084	12,101	1,931	18,736
1988	2,035	44,956	1,700	28,375		28.3	486.4	866	12,967	1,092	19,828
1989	3,157	48,113	2,186	30,561		30.5	516.9	927	13,894	994	20,822
1990	2,285	50,398	1,544	32,105		32.9	549.8	750	14,644	814	21,636
1991	3,834	54,232	1,647	33,752		34.5	584.3	735	15,379	678	22,314
1992	1,837	56,069	2,000	35,752		35.5	619.8	777	16,156	719	23,033
1993	1,539	57,608	2,332	38,084	1,863	36.9	656.7	547	16,703	538	23,571
1994	1,718	59,326	2,911	40,995		40.0	696.7	483	17,186	560	24,131
1995	1,514	60,840	2,831	43,826	2,000+	41.4	738.1	569	17,755	621	24,752
1996	1,426	62,266	3,148	46,974		36.2	774.3	757	18,512	724	25,476
1997	1,685	63,951	2,667	49,641		36.6	810.9	688	19,200*	902	26,378*

*There is a slight error in these annual figures. The National Center for Cultural Resource Stewardship and Partnerships (U.S. Department of the Interior, National Park Service) reports that cumulatively, as of FY 1997, $18.83 billion had been invested, comprising 26,676 projects.

There are other indicators of heightened preservation activity and monetary support. From five Section 106 reviews in fiscal year (FY) 1968, the cumulative total of such reviews approaches 50,000. The Historic Preservation Fund (HPF) authorized by the NHPA and supporting SHPO and other activities amounted to $0.3 million in FY 1968. By the late 1970s, it grew to $50 million annually; annual funding has subsequently declined to the $30 to $40 million level. Since its inception, the HPF has allocated about $800 million. Tax credit–aided historic preservation started slowly in the late 1970s; however, as of FY 1997, there have been 26,378 tax credit–aided historic preservation projects worth an aggregate $19 billion (U.S. Department of the Interior 1997a, 2). The average over that 20-year span is about 1,350 projects annually and a yearly $.950 million total investment. Since the tax credits amounted to 20 percent (post-TRA) to 25 percent (ERTA-period) of investment, the federal government was essentially "spending" (in lost tax dollars) an average of about $220 million annually to foster historic preservation through the tax credit.

Perhaps most telling has been the geometric growth in LPCs. In 1955 there were but a handful—about 20 LPCs throughout the United States. By 1966, a decade later, the tally had grown to 100. Bicentennial activities, along with the NHPA, sparked an upsurge to 492 LPCs by 1976. The 1978 *Penn Central* decision, in which the U.S. Supreme Court upheld local landmark designation (of New York City's Grand Central Station), and 1980 amendments to the NHPA encouraging local preservation activities (see table 1) led to further expansion—to 832 LPCs by 1981. The most recent count by the United States Preservation Commission's identification project is 2,019 LPCs as of 1996 (Cassity 1996; National Alliance of Preservation Commissions 1994).

These figures can be interpreted from either "glass half-empty" or "glass half-full" perspectives. The more pessimistic interpretation is that preservation funding—in the tens of millions of dollars for the HPF or even the hundreds of millions of dollars for the tax credit—are but minute fractions in a federal budget that in FY 1998 amounted to roughly $1.7 trillion. Likewise, historic commissions in about 2,000 local governments are a small representation of the almost 40,000 local units of government (counties, municipalities, and townships) in the United States (U.S. Bureau of the Census 1994). However, there is a more positive interpretation. Historic preservation in the United States used to be an exceptional activity. Today, as the above statistics attest, it has a much higher profile, although preservation is far from the prevailing mode of activity.

We now examine the major areas in which the growing interest in historic preservation has had an impact on housing and economic development, such as rehabilitation, housing production, heritage tourism, and downtown revitalization. These activities are interrelated, yet we gain perspective from discussing them discretely.

Historic rehabilitation and rehabilitation of the existing stock

Although the image of building in the United States is that of new construction, rehabilitation is a significant component of overall construction activity. If rehabilitation is defined as comprising additions, alterations, and improvements (all effected with a building permit) but excluding repairs, then as of 1994 (the last year for which national rehabilitation statistics as defined above are available), there was $44 billion worth of rehabilitation in the United States.[2] New construction that year amounted to $167 billion for total construction activity (with rehabilitation) of $211 billion. Rehabilitation thus accounted for slightly more than one-fifth of total national construction. If we disaggregate construction into residential-nonresidential subcomponents, rehabilitation nationally in 1994 accounted for 40 percent of nonresidential activity and 10 percent of residential construction (table 3).

One would expect rehabilitation to be more pronounced in the areas in the United States with the older stock, and that is the case. For instance, in the Northeast census region, rehabilitation in 1994 accounted for 31 percent of total construction and almost half of nonresidential construction (table 3). In an analogous fashion, in those portions of the metropolitan areas with older stock—namely, cities, as opposed to the metropolitan areas outside of cities—rehabilitation is most significant. From 1990 through 1994, rehabilitation activity represented 50 percent or more of total construction in such cities as Atlanta, Baltimore, Boston, Chicago, Cleveland, Denver, Philadelphia, and San Francisco.

In summary, rehabilitation plays an important role in construction nationwide. It is especially significant in older regions. In many cities, rehabilitation is the dominant type of construction.

Historic preservation is an important contributor to rehabilitation. The most direct link occurs when a property is designated a landmark, which can provide incentive to rehabilitate it. Data are not generally available that allow exact calculation of the extent of rehabilitation occurring in the historic stock. Anecdotally, we know from the literature that some of the most prominent examples of

[2] Considerable rehabilitation is undertaken without a building permit. See note in table 3.

Table 3. **Composition of Construction Activity in the United States, 1994**

Area/Construction Type	New Construction/Rehabilitation Investment ($ Billions)			
	New Construction	Rehabilitation	Total Construction	Rehabilitation % of Total Construction
Nation				
Residential	123	14	137	10.2
Nonresidential	44	29	73	39.7
Total	167	44	211	20.9
Northeast				
Residential	13.2	3.6	16.8	21.4
Nonresidential	5.4	4.7	10.1	46.5
Total	18.6	8.3	26.9	30.9
Midwest				
Residential	28.2	3.2	31.3	10.2
Nonresidential	11.7	7.8	19.5	40.0
Total	39.8	11.0	50.8	21.7
South				
Residential	47.3	3.7	51.0	7.3
Nonresidential	16.9	9.7	26.5	36.6
Total	64.2	13.4	77.5	17.3
West				
Residential	34.6	3.7	38.3	9.7
Nonresidential	10.0	7.3	17.3	42.2
Total	44.6	11.0	55.6	20.0

Source: U.S. Bureau of the Census, Building Permits.
Note: Rehabilitation is defined here as additions, alterations, and improvements (all effected with a building permit), excluding repairs. The value of rehabilitation put in place—which includes both permitted and unpermitted activity—is far greater than the permitted rehabilitation. In 1994 the latter amounted to $44 billion nationally for both residential ($14 billion) and nonresidential ($29 billion) permitted rehabilitation. By contrast, the value of rehabilitation put in place was $72 billion in 1994 for residential buildings alone. (The value of nonresidential rehabilitation activity is not tracked.)

residential rehabilitation in the United States, such as New York City's Greenwich Village, Philadelphia's Society Hill, Boston's Beacon Hill, and Providence's (RI) College Hill (Gratz 1994)—as well as notable examples of nonresidential development, from St. Louis's Union Station to Boston's Fanueil Hall (Wagner 1993)—are all historic districts or buildings, but that begs the question of how much of total rehabilitation is occurring in historic buildings.

A recent study (Listokin and Lahr 1997) of construction activity in New Jersey in 1994 determined there was $2.725 billion of new construction and $1.979 billion of rehabilitation. Because no separate data were available on rehabilitation of historic properties in New

Jersey (as in other states), the authors estimated the amount of rehabilitation occurring in the historic stock by sampling the experience in a number of representative communities and then pyramiding the results statewide.[3] We estimated that $123 million of New Jersey's $2 billion total expenditure on rehabilitation, or 6.2 percent, was spent on historic properties. The historic incidence was higher in urban communities and mature suburbs. In these municipalities, rehabilitation dominated construction, and historic rehabilitation accounted for to 8 to 10 percent of all rehabilitation (table 4).

Oldham (1990) estimated independently that roughly 5 to 10 percent of all rehabilitation is historic. This leads to the following estimate: As of FY 1994, there was $44 billion of permitted rehabilitation in the United States. Five percent of that total (applying the lower threshold) is $2.2 billion of historic rehabilitation. While admittedly the basis for this estimation is crude, the point is still made that there is considerable historic rehabilitation investment in the United States, making it an important contributor to housing and economic development.

Table 4. **Distribution of New Jersey Construction Activity, 1994**

	Value of Construction Activity ($ Millions)		
Community Type	Total New Construction	Total Rehabilitation	Historic Rehabilitation
Urban	159	404	38
Mature suburb	320	422	38
Developing suburb	2,052	1,108	45
Rural	194	45	2
Total (all areas)	2,725	1,979	123

	Percentage Distribution of Construction Activity		
	Rehabilitation as a % of Total New Construction and Rehabilitation	Historic Rehabilitation as a % of Total New Construction and Rehabilitation	Estimated Historic Rehabilitation as a % of Total Rehabilitation
Urban	71.8	6.6	9.3
Mature suburb	56.9	5.1	8.4
Developing suburb	35.1	1.4	4.0
Rural	18.4	0.8	4.9
Total (all areas)	42.1	2.6	6.2

Source: Listokin and Lahr (1997).
Note: Construction activity is rounded to nearest million dollars. Percentages are calculated on exact dollar outlays.

[3] In brief, this analysis traced the magnitude of historic rehabilitation by tracking the rehabilitation occurring in properties designated as historic.

Further, historic rehabilitation activity likely encourages renovation in the nonhistoric stock in different ways, including having a catalyzing impact, encouraging a rehabilitation industry, and fostering rehabilitation incentives.

Catalyst effect

Richard Wagner, author of the *Downtown Development Handbook* (1992), speaks of a "catalyst strategy" in the form of a "major development, such as a new festival marketplace or the rehabilitation and reuse of a major historic building to be the catalyst for additional projects" (Wagner 1993, 56). A catalyst effect is also likely from historic district upgrading, as owners of properties in neighborhoods near the historic districts in which renovation is occurring are more likely to rehabilitate their buildings. There is, in fact, a fluidity to the process by which one neighborhood is designated as a historic district, encouraging rehabilitation in an adjacent neighborhood that may ultimately itself be designated, in turn catalyzing rehabilitation in yet another area. This process is observed more anecdotally than statistically. In San Antonio, for example, historic designation of the King William area encouraged property renovations in, and ultimately designation of, neighboring areas. In New York City, historic designation of Brooklyn Heights encouraged rehabilitation in nearby Park Slope—the latter neighborhood ultimately designated as well (Abeles and Schwartz Associates, et al. 1979). While there may be other forces at work in such cases (e.g., a revitalized New York City economy and a dearth of new residential construction), historic preservation has had a positive catalytic effect in many communities.

The phenomenon of renovation—often seeded by historic preservation—triggering a ripple effect of upgrading was described by Rypkema (1994, 68–69):

> Property renovation is a catalytic activity; one renovation supports another. This pattern of reinvestment has a multiplier effect. . . . As more properties are rehabilitated, lenders are more interested in making loans. As more lenders compete for these loans, their rates and terms become more attractive. As financing becomes more readily available, appraisers adjust property values upward. As property appraisals increase, lenders are willing to extend further credit. The renovation of properties begins a cycle that improves the economic attractiveness of the neighborhood.

In many communities in the United States, the initiation of the improvement cycle noted by Rypkema consisted of historic preservationists reclaiming older town houses and row houses, adaptively reusing surplus industrial space, creating historic-oriented marketplaces, and the like.

Encouragement of a rehabilitation industry

One constraint to rehabilitation is that it involves much more custom-crafted construction skills and materials than those required for new construction. Historic preservationists have often taken the lead in nurturing these skills and materials development and in establishing forums for rehabilitation trades and suppliers. The National Trust for Historic Preservation has released guides such as *All about Old Buildings* (Maddex 1985) and similar publications (Maddex 1983; National Trust for Historic Preservation 1983). The National Park Service (1982) published *Respectful Rehabilitation—Answers to Your Questions about Old Buildings*. People involved in many aspects of rehabilitation, not just historic preservation, have utilized these and similar guides. The National Center for Preservation Technology and Training (NCPTT), operating under the auspices of the National Park Service, has funded research on such topics as lead paint abatement, termite infestation, older mechanical systems, building and fire codes, silicone applications, building crafts, and similar topics of value to historic preservationists and the overall rehabilitation industry (NCPTT 1997).

Fostering rehabilitation incentives

Historic preservationists have developed incentives and programs for landmark renovation that can be successfully expanded to encourage rehabilitation in general. For example, Article 32 of the Massachusetts Building Code is acknowledged as one of the most sensitive building regulations in the United States, encouraging rehabilitation of the existing stock. The impetus behind Article 32 was a group mainly concerned with the interaction of historic properties and the building code.

In 1975 an ad hoc committee, with members from such groups as the Society for the Preservation of New England Antiquities and the Boston Landmarks Commission, sought to find some way of resolving conflicts between Massachusetts's then existing building code and the rehabilitation of historic buildings (Ferro 1993). The group, officially called the Advisory Committee on Historic Properties, developed flexible standards for both historic landmarks specifically and all existing buildings generally. The committee's recommendations and subsequent lobbying and technical work (Pielert 1981, 11) ultimately led to the adoption of a Massachusetts building code chapter with special provisions for landmarks and a new, more flexible framework for all existing buildings. Article 32 established the concept that existing buildings could be exempt from meeting new building requirements if they met standards reflecting their use. Article 32 is credited with fostering significant rehabilitation throughout Massachusetts, not just of the historic stock (Listokin 1995). Thus, what started as a reform advocated by historic preservationists had a much broader positive influence on rehabilitation generally.

There is a circularity to the relationships sketched above. Historic preservation will foster rehabilitation generally, which in turn makes conditions more conducive to further historic preservation activity. The historic-inspired Massachusetts Article 32 served as a template for other states adopting separate building code provisions for all existing buildings (Listokin 1995) and also influenced *Nationally Applicable Recommended Rehabilitation Provisions,* prepared for the U.S. Department of Housing and Urban Development (HUD) (NAHB Research Center et al. 1997; NAHB Research Center and Building Technology 1995). (These other state and HUD codes also contain special standards for historic buildings.)

Historic preservation and housing production

The housing policy community needs to pay attention to historic preservation because it is already playing an important role. Of the $44 billion invested in permitted rehabilitation nationally in 1994, $14 billion was residential, and a share of that consists of historic preservation residential projects. In the New Jersey study cited earlier, $40 million of the total $123 million in historic rehabilitation was residential (Listokin and Lahr 1997). The literature is replete with examples of historic preservation producing housing (Delvac, Escherich, and Hartman 1996; Escherich, Farneth, and Judd 1996; Listokin 1995; Listokin and Listokin 1993). Most is market rate; some, where subsidies are available, is targeted to lower-income households.

The most significant single program involving historic preservation and the production of housing (including affordable units), and the one for which the most comprehensive data are available, is the historic rehabilitation tax credit (HRTC). The background of the HRTC is discussed below.

Until 1976, the tax code in the United States favored new construction. The fastest depreciation schedule—a 200 percent declining balance write-off[4]—was available only for new construction, whereas existing buildings were limited to a 125 percent declining balance schedule. The 1976 Tax Act introduced some historic preservation–supportive measures, such as counting preservation easements as charitable donations. Much more significant was the Economic Recovery Tax Act (ERTA) of 1981. ERTA introduced a three-tier investment tax credit (ITC). A 15 percent ITC was allowed for the rehabilitation of nonresidential income-producing properties at least 30 years old; a 20 percent ITC could be taken for the renovation of income-producing nonresidential property at least 40 years old; and a 25 percent ITC was available for the rehabilitation of historic, income-producing properties, both residential and nonresidential. These ITCs could be applied against wage and investment income, and syndications to affluent investors were common. For example, a $1 million rehabilitation of a historic apartment building would qualify for a $250,000 ITC, which investors could deduct dollar for dollar against their federal income tax liability according to their pro rata ownership of the historic renovation project.

The 1981 historic preservation ITC was a powerful lure. HRTC investment grew from $738 million in FY 1981 to $1.128 billion in FY 1982 to $2.165 billion in FY 1983 and a high of $2.416 billion by FY 1985. There was a spectacular increase in the number of HRTC projects as well (U.S. Department of the Interior 1997a).

The 1986 Tax Reform Act dramatically changed the ITC's provisions. Instead of a 15 to 20 percent ITC for income-producing nonresidential properties 30 to 40 years old, respectively, the 1986 act reduced the ITC to 10 percent and applied it only to buildings built prior to 1939. In addition, the 25 percent ITC for historic rehabilitation was reduced to 20 percent. To qualify for the 20 percent historic ITC, the rehabilitated property had to be a "certified historic structure" (i.e., a building listed on the National Register or located in, and contributing to, the historic significance of a National Register district);[5] the rehabilitation had to be "substantial" (i.e., more than $5,000 or the adjusted basis of the renovated property, whichever was greater); and finally, the rehabilitation had to be "historically" certified (i.e., it had to be consistent with the historic character of the building/district, using the Secretary of the Interior's Standards for Rehabilitation as a guide). The same three provisions were in place under the 1981 ERTA historic rehabilita-

[4] This tax write-off schedule is twice the straight-line depreciation on the declining balance being depreciated.

[5] A state or local district may also qualify if these districts and their enabling statutes are certified by the Secretary of the Interior.

tion ITC, but the Tax Reform Act capped the ITC at 20 percent and severely restricted application of the ITC against earned income. Investment in real estate limited partnerships was classified by the 1986 Tax Reform Act as “passive income,” and under the 1986 “passive activity loss limitation” the passive ITC could generally not be applied against “nonpassive” income (i.e., wages, interest, and dividends). Yet it was precisely the ability to apply the ITC against wages, interest, and dividends that prompted wealthy individuals to invest in a historic rehabilitation limited partnership.

The 1986 Tax Reform Act changes caused investment to plummet. From a high of 3,117 projects with an aggregate investment value of $2.416 billion in FY 1985, HRTC activity dropped to a low of 538 projects with an aggregate $547 million investment in FY 1993. It has subsequently rebounded, in part due to generally reinvigorated real estate investment, to 902 projects totaling $688 million in FY 1997 but is still below ERTA-era levels.[6] (The estimated HRTC investment[7] in FY 1997 was $1.728 billion.)

Since its inception, the HRTC has been available for both housing and nonresidential projects. In fact, one of the features distinguishing the HRTC from the nonhistoric ITC is that the former can be used for housing while the latter cannot. In practice, the HRTC has often involved housing or mixed-use (housing and nonresidential) investment. Although data are not readily available on the dollar distribution of HRTC investment by type, we can track the type of projects. This distribution indicates that about half of the HRTC projects were exclusively housing and another 20 to 30 percent were in the mixed-use/other category. The remainder were commercial/office renovations. Thus, in FY 1997, of the 902 HRTC projects, 406 were exclusively housing, 180 were mixed-use/other, 171 were office, and 145 were commercial.

Table 5 tracks the number of housing units produced under the HRTC. In the heady ERTA years, 15,000 to 20,000 units were created annually under the HRTC. That fell to an annual level of 5,000 to 10,000 units in the years immediately following the 1986 Tax Reform Act. Activity has rebounded somewhat in the past few years to HRTC production of 10,000 to 15,000 units yearly.

[6] Unless otherwise noted, dollar figures indicated in the paragraph are “certified investment,” which represents the amount actually spent on qualifying costs associated with the HRTC rehabilitation as indicated on the Part 3 HRTC application.

[7] Private sector investment is estimated on the Part 2 HRTC application. While work is supposed to be completed in a timely fashion, projects can be delayed for financing and other reasons. Thus, estimated investment amounts may not accurately reflect actual expenditures in any given year (U.S. Department of the Interior 1997b, 6).

Table 5. **Historic Rehabilitation Projects Involving Housing, Fiscal Year 1978 to Fiscal Year 1997**

Fiscal Year (FY)	Total Number of Housing Units Completed	Number of Units Rehabilitated	Number of Units Created	Total Number of Low-/Moderate-Income Units	Percentage of Low-/Moderate-Income Units to Total Number of Housing Units Completed
FY 1978	6,962	3,876	3,086	1,197	17
FY 1979	8,635	4,807	3,828	1,485	17
FY 1980	8,349	4,648	3,701	1,435	17
FY 1981	10,425	6,332	4,093	3,073	29
FY 1982	11,416	6,285	5,131	2,635	23
FY 1983	19,350	12,689	6,661	3,792	20
FY 1984	20,935	16,002	4,933	142	1
FY 1985	22,013	16,618	5,395	868	4
FY 1986	19,524	12,260	7,264	640	3
FY 1987	15,522	11,306	4,216	1,241	8
FY 1988	10,021	7,206	2,815	592	6
FY 1989	11,316	7,577	3,739	2,034	18
FY 1990	8,415	6,098	2,317	1,993	24
FY 1991	5,811	4,081	1,730	1,288	22
FY 1992	7,536	5,523	2,013	1,762	23
FY 1993	8,286	5,027	3,259	1,546	19
FY 1994	10,124	6,820	3,304	2,159	21
FY 1995	8,652	5,747	2,905	2,416	28
FY 1996	11,545	5,537	6,008	3,513	30
FY 1997	15,025	5,447	9,578	6,239	42
FY 1977–97	239,862	153,886	85,976	40,050	17

Source: Figures supplied by Kaaren Dodge of the U.S. Department of the Interior, National Park Service, Historic Preservation Services, April 1998.

Since the inception of federal historic preservation tax incentives, 239,862 units have been completed. Of that total, 153,886, or 64 percent, were existing housing units that were rehabilitated, and 85,976, or 36 percent, were newly created housing units (e.g., housing resulting from the adaptive reuse of once-commercial space).

Of the 239,862 total housing units completed under federal historic preservation tax incentive auspices since the late 1970s, 40,050, or almost one-fifth, were affordable to low- and/or moderate-income (LMI) families. That averages to about 4,000 LMI units per year. In FY 1997, 6,239 LMI units were produced under the HRTC. While these figures are not large in an absolute sense, given national LMI housing needs, they are noteworthy when compared with some better-known affordable housing production programs, such as the 5,000 new public housing units authorized in 1993 and the 8,300 HOME program units supported in 1994 (Wallace 1995, 795). The HRTC is largely invisible in the housing literature, yet it deserves much greater attention, given its total and LMI housing unit production. The LMI share of HRTC housing units is growing. From FY 1994 through FY 1997, 30 percent, on average, of all HRTC housing has been at LMI levels. In FY 1997 the LMI share of all HRTC units rose to 42 percent (table 5).

One way developers use the HRTC to create units affordable for LMI households is by "piggybacking" the HRTC's benefits with other subsidies. Piggybacked financing packages can include reduced or exempt local property taxes, a federal tax benefit from creating a preservation easement,[8] and housing subsidies such as the low-income housing tax credit (LIHTC).

The gain in equity yielded from combining the LIHTC with the HRTC is shown in table 6 for an example $2.5 million mixed-use ($2 million housing, $0.5 million nonresidential) rehabilitation project. With the LIHTC alone, $675,000 in equity is created from the $2 million in housing rehabilitation; combining the LIHTC and HRTC yields $940,000 in equity for the mixed-use project, or $265,000 more. Although the federal tax code requires that the credit from the HRTC be subtracted from the housing expenditures in calculating the LIHTC (see "less HRTC calculation" in table 6), this is more than offset by two features of the HRTC unavailable with the LIHTC: (1) the HRTC is applicable to the nonhousing portion of the project; and (2) the HRTC's credit allowance—20 percent—can be taken in the first year after project completion, whereas the LIHTC's maximum annual credit allowance—9 percent—is taken over 10 years. Given the time value of money, the de-

[8] The reduction in property value ensuing from the easement counts as a charitable contribution that can be deducted against taxes.

Table 6. **Example of Applying the Historic Rehabilitation and Low-Income Housing Tax Credits**

Item	Amount	Equity
Historic Rehabilitation Tax Credit (HRTC)		
Commercial basis	\$500,000	
Rehabilitation credit %	20%	
HRTC for commercial	\$100,000	
Housing basis	\$2,000,000	
HRTC %	20%	
HRTC for housing	\$400,000	
Total HRTC	\$500,000	
Equity yield for HRTC	80¢	
Equity from HRTC		\$400,000
Low-Income Housing Tax Credit (LIHTC) combined with the HRTC		
Housing expenditures	\$2,000,000	
Less HRTC	<\$400,000>	
Eligible basis	\$1,600,000	
Low-income set-aside	75%	
Qualified basis	\$1,200,000	
Annual LIHTC %	9%	
Annual LIHTC amount	\$108,000	
Total LIHTC	\$1,080,000	
Equity yield for LIHTC	50¢	
Equity from LIHTC		\$540,000
Combined equity		\$940,000
LIHTC Alone		
Housing expenditures	\$2,000,000	
Eligible basis	\$2,000,000	
Low-income set-aside	75%	
Qualified basis	\$1,500,000	
Annual LIHTC %	9%	
Annual LIHTC amount	\$135,000	
Total LIHTC	\$1,350,000	
Equity yield for LIHTC	50¢	
Equity from LIHTC alone		\$675,000
Additional equity from combined credit		\$265,000

Source: Delvac, Escherich, and Hartman (1995).

cade length of the LIHTC reduces its current value. (The LIHTC's total maximum credit over the decade is greater, however, than the HRTC's one-time deduction.)

We have focused on the HRTC-induced housing production because it is the best-documented type of historic preservation activity. If anything, however, housing rehabilitation and creation using the HRTC likely constitutes only a fraction of the housing activity linked to historic preservation. The latter includes, for instance, all owner-occupied historic housing undergoing rehabilitation (because the HRTC applies only to non-owner-occupant, income-producing situations) and conversion of historic nonresidential properties, such as a mill or school, to housing where a tax credit is not sought or there is ineligibility (e.g., because the rehabilitation is not "substantial" as defined for HRTC purposes). These beyond-HRTC examples, as well as the HRTC activity, all contribute to housing and economic development.

Historic preservation and heritage tourism

Travel statistics are often, at best, estimates. By all accounts, however, travel is a huge industry. The Travel Industry Association of America (TIAA) asserts that Americans traveling 100 miles or more from home in 1997 spent $443 billion (TIAA 1998). In addition, an estimated 51 million foreigners spent $81 billion while visiting the United States (TIAA 1998). The $500 billion U.S. travel industry—one of the fastest-growing business segments—accounts for approximately 6 percent of the nation's gross domestic product.

The domestic portion of total travel in 1997 included more than 1.2 billion trips to destinations 100 miles or more from home (TIAA 1998). Domestic travel in the United States is composed of pleasure trips (69 percent) and business trips (31 percent). The major stimulus for travel growth is expected to come from the increasing numbers of pleasure trips. More and more, consumers seem to prefer long-weekend getaways to lengthier vacations in more distant spots. Perhaps this reflects the rise in numbers of two-income households with more money but less free time (Standard and Poors 1996). Overall travel data also suggest an increasing trend toward shorter-duration trips—more day trips and one-night visits—and shorter-distance trips.

Heritage tourism comports well with these trends in pleasure trips, and historic sites play a crucial role in fostering pleasure travel. As travel expert Arthur Frommer (1993, 92) explains: "People travel in massive numbers to commune with the past. . . . [Y]ou cannot deny that seeing the cultural achievements of the past, as enshrined in period buildings, is one of the major motivators for travel."

Precise data on heritage tourism's share of the overall travel market are not available, but various surveys report that historic site visits are increasingly included on pleasure travel itineraries. Citing a 1993 survey, economist Tim Schiller (1996, 14) writes:

> Historic sites are growing in popularity as destinations for pleasure trips: 40 percent of families traveling on vacation stop at historic sites. Several factors account for this increased interest.

> First, such trips tend to be less expensive than other types of vacations or pleasure travel. Second, family travel has increased, and often, historic sites are something of interest to all family members. Third, vacationers, especially family groups, are more concerned about adding educational opportunities to their vacation plans.

The $16 billion spent on the restoration of American historic sites since 1976 has produced a critical mass of saved resources in many communities ("Saving Places" 1996). As the number of preserved historic sites and neighborhoods mounts, new tourism "product" becomes available for both domestic and international visitors, and the tourism-preservation cycle continues.

Evidence of heritage tourism's economic contribution (or its potential contribution) can be found throughout the country:

1. Almost 100 regional heritage areas are in varying phases of development across the United States. These efforts reflect broad-based collaboration to protect a regional landscape, preserve historic resources, enhance recreation, or stimulate economic development and regional strength through tourism.

2. In Virginia the impact of travel to historic sites was found to be crucial to the state's economy. Historic preservation visitors stay longer, visit twice as many places, and spend, on average, over two-and-one-half times as much money in Virginia than do other visitors. The economic impact of Colonial Williamsburg alone on Virginia's economy is claimed to be more than $0.5 billion a year (Preservation Alliance of Virginia 1996).

3. Civil War battlefield visitation has been found by numerous studies to be vast in scale and to have important economic benefits (Johnson and Sullivan 1992; Kennedy and Porter 1994; Lane 1982).

National data on heritage tourism volume and spending are sketchy. While the TIAA reported, based on a sample of travelers, that over one-fourth of U.S. adults (53.6 million) took at least one trip in 1996 that included a historic component, and that the average such trip involved a $615 outlay ($340 median), these trips included visitation to a historic place *or* museum, as opposed to historic visitation specifically (TIAA 1997, 1, 25). The most complete and focused data on heritage travel are available only at a statewide level (Preservation Alliance of Virginia 1996; Texas Department of Economic Development 1996), with one of the most comprehensive such reports done in New Jersey (Listokin and Lahr 1997).

Travel and tourism are important contributors to New Jersey's economic well-being. The 163 million adult trips (of all distances) made in New Jersey in 1995 generated $11 billion in traveler expenditures—and made travel one of the state's three largest industries. Heritage travel was found to be a significant component of the New Jersey travel market, making up about 5 percent of all trips.[9] Travel expenditures of New Jersey heritage travelers, counting only the spending strictly attributable to the heritage portion of their travels, amounted to some $433 million annually (Listokin and Lahr 1997, 54).

The $433 million in annual New Jersey heritage tourism is clearly far more significant than the $123 million in historic rehabilitation in this state and correlates to the hundreds of millions of dollars said to be spent by heritage travelers in Virginia and other states (Preservation Alliance of Virginia 1996). Furthermore, it is not just the scale of heritage tourism but its focus that makes it important to community and economic development; heritage destinations are often found in cities and other older communities that do not have the natural and man-made attractions (e.g., forests and amusement parks) that are major travel lures. For instance, tens of thousands of visitors go to Trenton, NJ—hardly a tourists' mecca—to visit such historic sites as the State House and the Revolutionary-era Barracks. Similar historic sites unique to their communities—from the Freedom Trail in Boston to San Antonio's Alamo to Seattle's Pike Place Market—attract travelers and their spendings to cities and older communities across the United States. Historic preservation offers a unique opportunity for older communities to turn the liability of age into a comparative advantage that capitalizes on their concentrations of historic places.

Historic preservation and downtown revitalization

In an era of homogenized retail businesses, malls, and office parks, older downtowns, with their compact assemblage of functions and their often unique merchandise and services, are yet another differentiating natural asset that can be capitalized on by communities trying to bolster their economies. Embodying the integration of historic preservation and downtown revitalization is the National Trust for Historic Preservation's Main Street Program. Main Street was initiated by Mary Means of the Chicago Office of the National Trust and was established in 1977 (K. Smith 1995).

[9] Heritage travel was determined in New Jersey from the state's annual travel survey. For instance, respondents indicating that they had visited a landmark or historic site were flagged as heritage travelers.

Main Street is a comprehensive program tailored to local needs and opportunities in four broad areas: design (enhancing the downtown's physical appearance), organization (building downtown consensus and cooperation), promotion (marketing the traditional downtown's assets), and economic restructuring (strengthening the downtown's economic base while finding ways for it to meet the challenges from outlying development). Today, more than 1,200 communities have adopted the Main Street strategy. Illustrative is the Main Street revitalization in Holland, MI:

> The year that Holland, Michigan (population 70,000), launched its Main Street program, a new mall and a manufacturer's outlet—one million square feet of new commercial space—opened up just outside the city. Faced with this enormous threat to the downtown's economic viability, the fledgling Main Street Holland Committee moved into action. Offering no-cost design assistance and low-interest loans to property owners, implementing an aggressive business development program, converting upper-floor spaces into apartments and improving the downtown's sidewalks, Holland's Main Street program has stimulated nearly $43 million in new investment . . . [and] a net gain of 36 new businesses and near-total occupancy. (National Trust for Historic Preservation 1998b, 1)

Main Street has also come to the inner city. For instance, the Local Initiatives Support Corporation is partnering with the National Trust's Main Street Center to bring the program to inner-city neighborhoods (K. Smith 1995, 51).

Main Street has played an important role both in older regions and in sunbelt locations. One of the largest Main Street programs is in Texas, where some 116 cities have participated. Florida has witnessed a spurt from 35 Main Street communities in 1995 to more than 60 today. Florida's Main Street programs are found in a variety of areas from Fort Myers to Panama City to Bonita Spring, the latter an incorporated area in Lee County. In these sunbelt locations, Main Street provides a sense of tradition and "center" that may otherwise be lacking—as well as a potent economic revitalization approach.

The Main Street program generates significant economic activity. According to the National Trust for Historic Preservation (1998b), Main Street initiatives in over 1,200 communities have from 1980 to date resulted in the following:

1. $8.6 billion in public and private reinvestment

2. 43,800 net new businesses generated

3. 161,600 net new jobs generated

4. 48,800 buildings rehabilitated

Historic preservation generally and the Main Street program in particular embody the positive incremental (Wagner 1993) "urban husbandry" (Gratz 1994) approach to revitalizing areas that has achieved greater success than the grandiose and ultimately flawed urban renewal strategy (Birch and Roby 1984). The latter tried to transform cities into homogenized places of commerce and housing. Urban husbandry works neighborhood by neighborhood and downtown by downtown and tries to capitalize on the unique physical and social identities of each place. The theme of historic preservation, and its many applications such as Main Street, is an important component of this current, more successful model of revitalization.

The contributions of historic preservation to housing and economic development: Multiplier effects

Although we have discretely discussed how historic preservation fosters rehabilitation, housing creation, heritage tourism, and downtown revitalization, these categories are interconnected. The Holland, MI, Main Street downtown effort resulted in not only greater downtown sales but also rehabilitation of commercial buildings, the renovation of second-floor housing apartments, and increased visitation to a downtown historic museum. The Okmulgee, OK, Main Street program "embraced preservation . . . and made it a linchpin of their tourism initiative" (National Trust for Historic Preservation 1998b, 1). This holistic interaction builds on historic resources, which are often uniquely concentrated in those communities most in need of housing and economic development.

Furthermore, the direct benefits associated with historic preservation, such as enhanced rehabilitation and heritage tourism spending, have advantageous multiplier effects. The latter incorporate what are referred to as indirect and induced economic consequences. Economists estimate these indirect and induced effects using an input-output model. The direct impact component consists of labor and material purchases made specifically for the preservation activity. The indirect impact component consists of spending on goods and services by industries that produce the items purchased for the historic preservation activity. Finally, the induced impact component focuses on the expenditures made by the households of workers involved either directly or indirectly with the activity. For example, lumber purchased at a hardware store for historic rehabilitation is a direct impact. The purchases of the mill that produced the lumber are indirect impacts. The household expenditures of the workers at both the mill and hardware store are induced impacts.

To illustrate, we will calculate the total (direct and multiplier) economic benefits of two components of historic preservation activity: the national historic rehabilitation tax credit certified investment as of FY 1997 of $688 million and, at a state level, the heritage tourism spending ($433 million) identified for New Jersey. The total effects in both instances are estimated via a widely used regional input-output (I-O) model developed by the Regional Science Research Corporation (RSRC). The RSRC model yields economic impacts such as the following:

1. Jobs: Employment, both part- and full-time, by place of work, estimated using the typical job characteristics of each detailed industry

2. Income: “Earned” or “labor” income—specifically wages, salaries, and proprietors’ income

3. Wealth: Value added—the equivalent at the subnational level of gross domestic product (GDP)

4. Taxes: Tax revenues generated by the activity, including those garnered by the federal, state, and local levels of government

Total economic benefits are summarized as follows. The total benefits from the $688 million HRTC are 23,148 jobs, $762 million in income, $1.0 billion in GDP, and $319 million in taxes ($201 million federal, $64 million state, and $54 million local). Interestingly, the federal cost of the HRTC, at 20 percent of the $688 million investment, or $138 million, is exceeded by the $201 million in federal taxes if social security payments are included, and is approached by the $117 million in federal taxes if social security is excluded. The total economic impact from the $433 million in spending by New Jersey heritage travelers, encompassing both direct and multiplier effects, included, at the national level, 15,530 jobs, $383 million in income, $559 million in gross domestic product, and $216 million in taxes.

For both the national HRTC and New Jersey heritage tourism impacts, benefits accrue across all sectors of the economy. For instance, HRTC’s total job creation of 23,148 includes 5,153 jobs in construction, 4,600 in manufacturing, and 4,750 in services. Heritage tourism’s $383 million income generation in New Jersey encompasses $109 million in the retail trade sector, $99 million in services, and $66 million in manufacturing.

This growth often benefits areas most in need of community and economic development. Trenton, NJ, is illustrative. Even though it is the state capital, Trenton is depressed economically and faces severe housing challenges. Yet Trenton has a rich history, and historic preservation capitalizes on the physical legacy of that history and can offer some economic pump priming. In 1994 about $7 million in historic rehabilitation occurred in Trenton. According to the RSRC I-O model, the $7 million invested in Trenton's historic rehabilitation translates into $5 million in income at the state level. While only a share of the $5 million is captured in Trenton, the net to Trenton is meaningful in a city with a 12 percent unemployment rate and $11,000 per capita income.

Furthermore, historic rehabilitation lends positive support to other construction activity in a community. Rehabilitation of buildings in a historic neighborhood in Trenton encouraged additional rehabilitation throughout the city. A total of $41 million was spent on nonhistoric rehabilitation in Trenton, generating an in-state total benefit (including multiplier effects) of $27 million of income. Some fraction of that income (admittedly undetermined), fostered by the seed of historic preservation activity, also works its way back to Trenton.

Of further note is historic preservation's role as an economic pump primer vis-à-vis other nonpreservation investments. Because construction is an important element of historic preservation, a common frame of reference is how well preservation, in the form of historic rehabilitation, compares economically to alternative construction endeavors. Table 7 shows the economic effects of the historic rehabilitation of different types of buildings (e.g., single- and multifamily) relative to new construction of the same types of buildings. The economic impacts include total (direct and indirect/induced) income, wealth, and tax consequences per standard increment of investment ($1 million) at both the national and state levels. The comparisons in table 7 reveal that, across all building and investment types, *historic preservation, in the form of historic rehabilitation, is a somewhat more potent economic pump primer than is new construction.*[10] For instance, $1 million spent on nonresidential

[10] What makes historic preservation a better economic development investment than similar *new* infrastructure is its higher reliance on craftsmanship. A greater degree of craftsmanship is required not only in the rehabilitation activity (e.g., stripping of existing woodwork, gilding domes, and making plaster cornices) but also often in the production of materials used in the course of the rehabilitation job (e.g., replacement glazing, woodwork, and specialized coverings). Greater use of craftsmen means that more labor-intensive activities in rehabilitation supplant others that are typically routinized in new construction. Thus, labor winds up substituting for materials and other supplies (henceforth "capital"). Because labor for such construction almost exclusively is U.S. workers, and because capital can be

Table 7. **Relative Economic Effects of Historic Rehabilitation versus New Construction**

Geographic Level/ Economic Effect	Construction Activity—Historic Rehabilitation and New Construction								
	Single-Family		Multifamily		Nonresidential		Highway	Civic/Institutional	
	Historic Rehabilitation	New Construction	Historic Rehabilitation	New Construction	Historic Rehabilitation	New Construction	New Construction	Historic Rehabilitation	New Construction
National									
Employment (jobs)	36.7	36.0	36.4	36.1	38.3	36.1	33.6	37.8	36.9
Income ($000)	1,240	1,206	1,226	1,213	1,302	1,223	1,197	1,285	1,250
GDP ($000)	1,672	1,604	1,661	1,606	1,711	1,600	1,576	1,695	1,626
State taxes ($000)	106	102	105	102	110	103	101	108	105
Local taxes ($000)	89	86	88	86	92	86	85	91	88
State									
Employment (jobs)	18.4	16.4	18.0	16.4	19.3	16.7	15.2	19.0	17.2
Income ($000)	623	578	623	577	685	600	600	675	616
GSP ($000)	937	811	915	814	964	827	806	946	843
State taxes ($000)	65	59	65	59	70	61	60	69	62
Local taxes ($000)	55	49	55	49	59	51	50	58	52

Source: Listokin and Lahr (1997).
Note: GDP = gross domestic product; GSP = gross state product.

historic rehabilitation generates, at the national level, 38.3 jobs, $1,302,000 in income, $1,711,000 in GDP, and $202,000 in state and local taxes. By contrast, $1 million spent on new nonresidential building generates nationally 36.1 jobs, $1,223,000 in income, $1,600,000 in GDP, and $189,000 in state and local taxes. The same size investment in new highway construction induces 33.6 jobs, $1,197,000 in income, $1,576,000 in GDP, and $186,000 in taxes. The historic preservation advantage is much less—but still present—with respect to residential construction, as is shown in table 7.

One other consideration of what constitutes a "good investment" is the relative comparison of historic preservation investment versus investment in such nonconstruction sectors of the economy as manufacturing, publishing, and so on. On this basis, historic preservation also shows some economic advantage, as illustrated in table 8.

Table 8. **Economic Impacts per Million Dollars of Initial Expenditure**

Economic Effect (National)	Residential Historic Rehabilitation*	Book Publishing	Pharmaceutical Production	Electronic Component Production
Employment (jobs)	36.7	35.3	28.4	30.9
Income ($000)	1,240	1,160	1,045	1,018
GDP	1,672	1,722	1,546	1,483
State taxes ($000)	106	103	93	87
Local taxes ($000)	89	86	79	74

*Single-family

Others have noted the relatively superior economic pump-priming effect of historic preservation. For example, Rypkema (1995a) observes that a $1 million investment in rehabilitation creates 12 more jobs than a similar-sized investment in car manufacturing in Michigan and 20 more jobs than mining $1 million worth of coal in West Virginia.

Cautionary considerations regarding the relationship between historic preservation and housing and economic development

While historic preservation is an overwhelmingly positive force, fostering as it does community and economic development, there is inevitably some downside. This section reports on a range of such

imported, economic effects from rehabilitation are less likely to "leak out" of the national economy when labor substitutes for capital. As a result, greater national multiplier effects are realized with rehabilitation.

cautionary considerations and also notes meliorative actions being taken to address negative influences so that even greater housing and economic development benefits will be realized from historic preservation.

Questionable application of historic preservation

At its origins, historic preservation was focused clearly on saving the physical legacy of history's defining moments and influential actors. Early preservation projects included George Washington's home (Mount Vernon) and Gettysburg Battlefield. Over time, preservation's mandate has broadened to include many more historically significant entities, from pedestrian row houses (reflective of typical workmen's housing) to elevated subway tracks (reflective of engineering accomplishment). With this expansion of application, the scale of preservation has increased geometrically, with local preservation commissions increasing in number from 20 to over 2,000 in just a few decades.

The enlargement of the scope of historic preservation is one of its strengths today, yet the downside is some dilution of its message and criticism of its application. As Rose (1981, 476) notes:

> The phrase "historic preservation" is so elastic that any sort of project can be justified—or any change vilified—in its name. In a sense, every event is "history," and it is a cliché among professional historians that views of "historic significance" alter considerably with shifting social interest.

Even staunch supporters of historic preservation point out instances where preservation may have been questionably applied. Examples include using preservation as a rallying cry to stop new development where there was little of historic value at stake, or calling on the New York City LPC to try to curb the operations of a Korean green grocery in the Upper East Side historic district on the grounds that such use was "alien" to that tony neighborhood (Costonis 1989). As historic preservation has been popularized (some would argue at times trivialized or "Disneyfied" [Huxtable 1997]), its imperative has been diluted and its strength as a community and economic development resource diminished. In fact, critics of historic designation often warn that designation, by freezing development, will impede rather than foster economic activity. For example, some argued that designation of Chicago's Art Deco McGraw Hill Building, which would thwart redevelopment of the site as a Nordstrom department store, would forestall needed employment growth (Nuenke 1998). There is also the issue of economic "cannibalism." When there are few restored festival marketplaces, such as

Boston's Fanueil Hall, there is more of a regional draw to each than when many cities have a marketplace of their own. In a similar fashion, Main Street's momentum may slow as many communities in a state have a restored downtown, which means that each will be supported by more of a local as opposed to a multicommunity market.

It is important to place the foregoing comments in perspective. Most applications of historic preservation are judicious, so that historic designations reflect legitimate concerns to protect a community's historic resources. Similarly, while the nation may be overmalled, we are currently far from an "over Main Streeting" of America. And there is similar "cannibalism" in other popular economic revitalization strategies ranging from convention centers to casinos. Yet as historic preservation grows in breadth and application, the tensions we have noted will be exacerbated. Some backlash is already being witnessed. To illustrate, Goal 5 in Oregon's growth management plan, calling for the inventorying and protection of historic areas, led to a surge of local surveying and historic designation. In response to criticism that designation was going "too far," the Oregon legislature enacted a law that requires owner consent for designation. There is also discussion in Oregon about modifying Goal 5 to eliminate new inventories of historic resources (Listokin 1997). In a similar vein, there are currently 99 bills pending in 48 states that would curtail state and local governments' ability to protect historic and national resources on the grounds that such protection diminishes private property rights (Beaumont 1996a, 339).

Regulatory burden

One of the benefits and burdens of historic preservation is the measure of control it offers. Thus, a property owner in a historic district may be more willing to invest in the rehabilitation of his or her building secure in the knowledge that the LPC will guard against neighboring buildings being inappropriately altered or torn down and replaced by a more intense use. For instance, the Greenwich Village Homeowners Association commented that "historic designation protects against economic [development] pressures and inappropriate facade changes" (Abeles and Schwartz Associates et al. 1979, vi–29). There are other forms of historic preservation regulations. A project disturbing the record of the past may require extensive archaeological study and documentation. To qualify for an HRTC, the proposed rehabilitation must be "certified," that is, deemed as consistent with the historic character of the property and, where applicable, the district in which it is located. Certification allows for some alteration of the historic property to provide for an efficient use; "however, the project must not damage, destroy, or cover materials and features, whether interior or exterior, that help define the building's historic characteristic" (National Park Service 1998). Such preservation-sensitive treatment is mandated by the Secretary of the Interior's Standards for Rehabilitation.

When taken to the extreme, historic preservation regulations, especially those concerning LPC oversight, have evoked charges of a government taking and have led to the "takings" legislation noted earlier. A careful read, however, shows ample legal authority for government fostering historic preservation (Duerksen and Roddewig 1994; Kayden 1996). Nonetheless, there is inevitably some chafing at preservation controls, and their imposition points to some of the tensions involved. Illustrative is the experience of Isles, Inc., a nonprofit group, in rehabilitating row houses in a historic neighborhood in Trenton. The city requested that Isles "historically" repair the facade via cleaning and restoration of the brick masonry, installation of wooden sash and frame windows, and installation of a six-panel pine entry door. Issues arose in meeting the historic requirements code. The use of "historic" windows (typically, double-hung, wood sash) presented a problem for exit in case of fire. Without a historic preservation requirement, the builder could install a full-size casement window in an existing opening that met the requirements for fire egress. The historic demand for a wooden sash, double-hung window meant that the overall window size had to be increased so that half the window, when open, could provide the needed egress. This often made it necessary to remove and rebuild existing brick facades at an additional expense. The standard casement window cost about $175. The wood sash window cost about $380, plus an additional $150 to rebuild the brick facade, for a total of $530—about $350 more than the casement. As six windows were involved (per house), the difference was $2,100. The $2,100 cost against a total project outlay of $69,000 was not very significant, yet every increase meant that some families would be priced out of purchasing the unit (Listokin 1995, 25).

In yet another Trenton example, conversion of a three-story commercial landmarked property to housing (on the upper two floors) was thwarted because an exterior fire escape, which would have provided a required second means of egress from the upper stories, was disallowed as being historically inappropriate to the building's facade. Yet this project would never have been proposed in the absence of the federal tax credits for historic rehabilitation, or more generally, without enhanced housing demand in the historic district in which the property was located.

Nationally, there has been some debate on the standards to be used on historic preservation projects utilizing federal assistance, such as a HUD housing subsidy. The basic guide is the Secretary of the Interior's Standards for Rehabilitation (SISR), which emphasizes minimal changes to defining characteristics of both the building's exterior and interior. As described by H. Ward Jandl, the SISR "place[s] a high premium on retaining and reusing significant historic fabric and on reusing existing materials rather than inserting new features and finishes" (Jandl 1993, 150). The SISR is a critical preservation document and is the standard referred to by many state and local historic commissions. The SISR has fostered more sensitive rehabilitation. Additionally, by emphasizing "retention and reuse of existing features" (Delvac, Escherich, and Hartman 1996, 9), the SISR can realize construction cost savings. At the same time, the SISR, especially its provisions pertaining to retaining building interiors, is viewed by some as an impediment to developers trying to provide affordable housing (Werwath 1993). For instance, developers are unable to cover a deteriorated tin ceiling or replace older doors if such features were important to the building's interior characteristics. Community developers became frustrated "when expenses incurred through compliance with the [SISR] made projects infeasible" (Keister 1995, 16).

However, regulatory tensions can be reduced (Guyer 1996). In fact, the Advisory Council on Historic Preservation (ACHP), HUD, the National Trust for Historic Preservation, and other organizations consulted on the Section 106 issue described previously, which led to the ACHP releasing a statement in 1995 on Affordable Housing and Historic Preservation (ACHP 1995). The statement called for "ways to reconcile national historic preservation goals with the special economic and social needs associated with affordable housing" (ACHP 1995, 1). Among the concrete ways to realize that was to emphasize exterior treatments in Section 106 review, to adhere to the SISR "when feasible," and to "develop alternative design guidelines tailored to the district or neighborhood" when economic or design constraints preclude the application of the SISR (ACHP 1995, 2). The development of alternative standards is being honed through such efforts as case study projects aided by the Community Partners Program (CPP) of the National Trust for Historic Preservation (Guyer 1996, 23). One such example is San Antonio's Lavaca neighborhood:

> For several years, Lavaca residents have debated whether to nominate their community for local landmark district status. . . . Underlying the neighborhood's ambivalence has been concern over the impact preservation ordinances would have on Lavaca's fixed-income elderly residents. . . . Appreciation for the neighborhood's rich cultural history is widespread, but reviews of alterations similar to neighboring, wealthy King William seemed out of the question. . . . CPP organized a task force to work with residents on cost-sensitive design standards. The task force

> toured a half-dozen typical residences to identify the character defining features of Lavaca's historic homes and developed a cost comparison of different products, materials and methods of repairing or replacing these critical features. The task force then began developing guidelines that reflected a balance of competing objectives including affordability, energy efficiency, environmental safety, marketability, and historic character. Now that the guidelines have been completed, the Lavaca Neighborhood Association is pursuing National Register and local landmark designation with renewed confidence. (National Trust for Historic Preservation 1998c)

Displacement

Neighborhood revitalization fostered by historic preservation also has a downside in that it can lead to displacement of area residents. The manifestations of such revitalization, such as enhanced rehabilitation, retail invigoration, and property appreciation, may cause existing low-income households and small-scale businesses to leave as they can no longer afford the rising rents and property prices.

Numerous studies point to the often significant and rapid socioeconomic changes in historic neighborhoods undergoing revitalization. Schill and Nathan (1983) examined 1950–70 census profile data of numerous neighborhoods, some including historic areas such as Society Hill in Philadelphia and Georgetown in Washington, DC. In both of these historic areas, the neighborhoods' racial complexions changed from significantly nonwhite to almost entirely white; the median family income increased dramatically; the percentage of owner-occupied units rose markedly at the expense of the rental stock; median house values showed a hefty appreciation; and other significant shifts occurred, such as a flip in occupational profile from blue-collar to managerial-professional. These changes meant that many of the original poorer, nonwhite, less-educated residents in the historic neighborhoods left, or were forced to leave, as these areas became fashionable and their character changed.

A similar pattern of change in the census socioeconomic profile is evident in other historic areas. Cohen (1980) discovered such shifts in numerous historic neighborhoods in Chicago (e.g., Old Towne, Pullman, and Sheffield); O'Loughlin and Munski (1979) found the same in New Orleans.

Some studies point more directly to forced movements from historic areas. In 1981 Tim Barnekov and John Caron of the University of Delaware examined social change in the Quaker Hill district of Newark, DE. They found a considerable level of movement out of the Quaker Hill district—20 percent of the previous residents were not there one year after being interviewed by the two researchers. Follow-up surveys by Barnekov and Caron indicated that a large share of those moving did so involuntarily because of rising rents, rental units being converted into condominiums, and smaller apartments being combined into fewer larger ones. More current studies on gentrification are similar. Frequently, the areas where gentrification is investigated are well-known historic neighborhoods such as Society Hill (N. Smith 1996). And festival marketplaces, to many the hallmark of successful historic preservation, are viewed by others in a less positive light:

> No one has yet seriously proposed that we view James Rouse—the developer responsible for such maverick downtown tourist arcades as Baltimore's Inner Harbor, South Street Seaport in New York or Boston's Fanueil Hall—as the John Wayne of gentrification, but insofar as such projects serve to anchor the gentrification of many downtowns, the proposal would be quite in keeping with the frontier discourse. In the end, and this is the important conclusion, the frontier discourse serves to rationalize and legitimate a process of conquest, whether in the eighteenth- and nineteenth-century West, or in the late-twentieth-century inner city. (N. Smith 1996, xv)

On the other hand, there are many instances of historic areas that are largely made up of less-advantaged and minority residents, such as Atlanta's Martin Luther King Jr. district and Mount Morris Park and other historic landmark districts in New York City. Historic preservation is credited with blocking the proposed redevelopment of one historic black neighborhood in Cocoa, FL, that would have displaced that area's minority residents (Coplan 1991). Despite these and other examples, the historic preservation community recognizes that its actions have been associated with gentrification and that, in turn, many less-advantaged people view preservation cautiously (Ainslie 1981; Keister 1995). In fact, over the past two decades, preservationists have done yeoman's work in trying to reduce displacement pressures. There are numerous success stories in this regard, with some of the most notable examples occurring in Savannah, GA, and Pittsburgh.

In the mid-1970s, Savannah's national historic district had undergone considerable upgrading, and there was subsequent upgrading in the immediately adjacent areas, one being the Victorian district. The latter was an 800-acre area with almost 1,300 units, housing mainly low-income, minority, and elderly renters. The seeds were in place for a massive displacement of those individuals. It was not to be, however.

In 1974 a small group of preservationists led by Leopold Adler II formed the Savannah Landmark Rehabilitation project (Adler 1993). A knowledgeable, multiracial board of locals and experts in finance, business, construction, and social work was assembled. The group aimed to improve housing in the Victorian district and to preserve its neighborhood character while adding new residents. This required not only financial, construction, and preservation acumen but also considerable outside assistance. Savannah Landmark excelled at grantsmanship; it garnered funds from such sources as the Comprehensive Employment Training Act, Community Development Block Grant (CDBG), Housing Development Action Grant, HUD Section 8 assistance, and subsidies and grants from the National Endowment for the Arts and the Ford Foundation. Besides these funders, Savannah Landmark worked with Fannie Mae, the National Housing Partnership, and others. The result was the provision of hundreds of rehabilitated housing units for the poor, representing a multi-million-dollar investment and the preservation of a desirable historic area in Savannah.

The experience of Savannah Landmark is echoed elsewhere. In the mid-1960s, two visionaries, James D. Van Trump and Arthur P. Ziegler, toured Manchester, a neighborhood on Pittsburgh's north side that was architecturally and historically significant. It had been developed between 1870 and 1900 and had once been home to such luminaries as Gertrude Stein and Andrew Carnegie. By the mid-1960s, however, Manchester was a deteriorated area housing mostly poor, minority residents. The city's prescription was the standard one—launch a massive urban renewal demolition and redevelopment program. Trump and Ziegler felt this would destroy Manchester and formed an organization called the Pittsburgh History and Landmarks Foundation (PHLF). The guiding principle of PHLF was to try to restore Manchester with techniques acceptable to residents. After meeting with residents, the preservation approach was enthusiastically endorsed, as was PHLF's commitment to serve rather than displace existing residents.

Over time $30 million was spent on Manchester's renewal (Lowe 1993). Preservation and rehabilitation were accomplished while keeping housing available to low- and moderate-income families—thus fulfilling one of the guiding principles of PHLF. Monies were lent through a revolving Preservation Loan Fund (and other mechanisms), and funds for these financing programs were in turn raised from federal sources such as the CDBG and private banks and foundations. In time, the PHLF efforts expanded from the initial Manchester neighborhood to numerous lower-income, inner-city neighborhoods and 10 National Register–eligible districts. The guiding philosophy was retained and realized in all of the locations—preservation with neighborhood participation and the provision of lower-cost rental and for-sale housing. The PHLF has also subsequently applied historic preservation themes to generate economic development in needy Pittsburgh neighborhoods (Slaughter 1997, 41).

The National Trust for Historic Preservation has worked hard to foster more Savannah Landmark and PHLF successes. Since 1981 the trust's Inner City Ventures Fund (ICVF) has awarded more than $7 million in financial assistance to preservation projects benefiting low-income residents. The ICVF approach has subsequently been broadened by the trust into the CPP, a larger standing effort that encompasses the ICVF and is involved in such activities as promoting affordable preservation standards and providing preservation, organizational, and real estate technical assistance to local community groups.

CPP and programs like it are working to make preservation more a support, rather than a detriment, to less-advantaged residents. Their task is daunting, since almost all of the deep public subsidies relied upon by Savannah Landmark, PHLF, and similar organizations no longer exist, necessitating the arduous search for replacements.

Summary and policy recommendations

Historic preservation is a powerful tool for housing and economic development. On an order of magnitude basis, renovations to historic structures likely comprise at least 5 percent of all permitted rehabilitation, amounting to expenditures of over $2 billion annually in the United States. Such historic activity further encourages rehabilitation in the nonhistoric stock—worth billions more—and helps incubate a rehabilitation building trade and materials industry. This is most opportune; in the same manner that America's population is aging, so is its housing. According to the 1995 *American Housing Survey,* 31 million of the nation's 110 million housing units, or almost 30 percent, are 50 years of age or older, and this inventory will benefit from the rehabilitation nurturing skills garnered from historic preservation. (Fifty years is typically the minimum benchmark age for considering a building historic.)

Related to its strong role in rehabilitation is the housing benefit from historic preservation. Projects utilizing federal tax incentives have alone resulted in about 240,000 housing units being completed—about 40,000 of those, or one-sixth, are available to LMI households. Added to this housing creation is the considerable preservation activity not utilizing tax credits.

A most significant contribution of historic preservation to community and economic development is in the form of heritage tourism. Tourism is an economic dynamo; worldwide its total 1994 economic value is estimated at $3.6 trillion, or 11 percent of the gross global product (Travel and Tourism Survey 1998). In the United States, tourism ranks as the third-largest industry, totaling $500 billion in spending. On a rough order of magnitude, about 5 percent of all trips in the United States are heritage related, and it is likely that at least $20 to $25 billion is spent each year for heritage travel.

Heritage travel and other positive spin-offs from historic preservation make preservation a potent tool for downtown revitalization. The Main Street Program alone is 1,200 downtowns strong and is credited with creating nearly 162,000 jobs and $8.6 billion of investment.

The direct benefits we have cited have multiplier effects that enlarge their reach. For instance, a FY 1997 HRTC-certified investment of $688 million created 7,945 direct jobs and 15,203 indirect and induced jobs, for a total of 23,148. Similarly, the $556 million expended in 1994 on historic rehabilitation and heritage tourism in New Jersey was responsible for 20,137 jobs—9,114 direct and 11,023 secondary—and further rounds of economic activity.

These housing and economic development results from historic preservation are that much more significant given the locus of the benefits—often older cities and communities that are otherwise depressed. These communities are searching for revitalization vehicles in which they have some competitive advantage, such as serving as centers of the arts, education, health care, and sporting events (Historic Richmond Foundation 1989). The historic legacy of these communities, notably their older housing and nonresidential stock and their many places of cultural significance, as well as the preservation activities that can capitalize on these resources, such as adaptive reuse of abandoned mills and heritage tourism, are yet further distinctive resources on which the communities can draw to renew themselves.

To be certain, there are negative characteristics of the association between historic preservation and housing and economic development. These include an expansion in the application of preservation that dilutes its imperative and economic benefits; an increase in regulations related to preservation that sometimes run counter to such goals as flexible reuse and affordable housing; and displacement of the less-advantaged residents as historic areas ascend economically. Yet these undesirable consequences are not givens, and preservationists are working hard to become more flexible and inclusive (Cisneros 1996).

Continued vigilance and change are necessary if the full contribution of historic preservation to housing and economic development is to be realized. Historic designation should proceed in a studied, comprehensive manner rather than as a last-minute "stop-the-bulldozer" approach—the latter inculcating criticism that preservation and its controls are unpredictable and obstruct appropriate development. Similarly, preservation regulations should be clear and administered expeditiously and flexibly. Illustrative are efforts by a growing number of LPCs issuing detailed design guidelines, so that landmark property owners have a clear idea of what is expected of them, and fast-tracking reviews of, for instance, minor modifications to retail facades.

The basic designation approach also may require rethinking. Currently a property is or is not designated as a local landmark, and if it is designated, then certain restrictions apply. As one alternative, a tiered approach could be followed, reflecting the fact that historic resources vary in significance. The most exemplary could be designated under a tiered landmarking approach as "significant"; a middle-level classification might consist of entities considered "important"; and the lowest threshold would encompass resources viewed as "contributory." Restrictions against demolition and alterations would then be gauged according to classification, with the greatest restrictions applied to the "significant" groups and much less stringent controls affecting the "contributory" properties (Listokin 1997, 211–12).

A tiered approach, already adopted in such communities as Atlanta and San Francisco (Collins, Waters, and Dotson 1991), may facilitate preservation's contribution to community and economic development. For instance, common row houses undergoing rehabilitation might be classified as "contributory" resources and thus could be renovated under more flexible standards, which would bolster affordable housing delivery. Tiering could also lessen accusations that preservation freezes development, because only a small inventory of resources—those deemed the most significant—would be subject to stringent controls. Tiering could also be connected to varying HRTC provisions, such as bringing back the previous 25 percent ITC without passive income restrictions for rehabilitation on a "significant" property, while perhaps reducing the ITC to 15 percent for "contributory" properties (down from the current 20 percent), but allowing this latter work to be done under more flexible guidelines than even the reformed Section 106 standards.

Tiering raises issues of its own. It requires a critical contextual application. Common row houses that might be "contributory" in one location could be "significant" in another if they were rare or associated with some historical event (e.g., they housed an important personage or were the first homes of a particular ethnic group). Inevitably, fewer support resources would be directed toward the contributory than to the significant category. Tiering is neither simple nor without risk. Its advantages, however, are many, as noted previously; and as the number of recognized historic resources grows, so does the need for a flexible targeting and classification mechanism such as tiering.

Furthermore, revisions to the tax credit system are in order. The ITC should be increased for HRTC projects involving low-income housing. (Currently, the same credit is granted to both market-rate and affordable units.) Additional encouragement should be given to HRTC-LIHTC projects such as reducing (or eliminating) the current provision that in a joint HRTC-LIHTC project, the LIHTC's basis is reduced by the amount of the HRTC. Another approach to fostering greater HRTC-LIHTC usage is for state housing authorities, which allocate the LIHTC credits among competing applications, to favor historic preservation projects. For example, the Wisconsin Housing and Economic Development Authority grants 12 additional points in Wisconsin's LIHTC competition to historic preservation applications (Baskin 1997; Beaumont 1996b). (In addition, Wisconsin adds a 5 percent state supplement to the 20 percent federal HRTC.) While there have been numerous examples of successful HRTC-LIHTC partnering, nationally only 100 to 200 such joint projects are undertaken each year. Implementing these recommendations could increase that number and counter displacement tensions.

The nexus of historic preservation and housing would be furthered by extending tax credit benefits, now limited to income-producing properties, to rehabilitation of historic structures occupied by the taxpayer as a principal residence. This is the intent of the proposed (but not enacted) H.R. 1662 entitled the Historic Home Ownership Assistance Act of 1997. This legislation does not distinguish between owners by level of income. Perhaps the homeowner benefit should be scaled, with the highest tax credits limited to the less-advantaged owners. And greater attention should be paid to how the local property tax can encourage rather than discourage property upgrading (Beaumont 1996a; Listokin et al. 1982).

The call for reform so that preservation can realize its fullest housing and economic development potential is not directed at the historic preservation community alone, for there are many inhospitable land use and housing regulations that need to be changed. For instance, many communities' zoning regulations limit the ability to change a building's use (e.g., a large, older home to office space) or to carve out smaller units from larger spaces (e.g., granny flats), yet such flexibility is important for both finding uses for older buildings and producing affordable housing. Certain communities, such as

San Francisco, have worked to better integrate their preservation and land use systems, and others should follow their lead (Miller 1986).

The building code is yet another barrier—and opportunity for change (K. Smith 1995). In many American downtowns, often on the main street, there are older, three- to four-story commercial buildings. At one time, all the stories were occupied, but as the market for walk-up, upper-story commercial or residential space disappeared, the upper stories became vacant. These spaces could be rehabilitated for housing, an adaptive reuse important to historic preservation and housing creation. Current building codes, however, often disallow such reuse of the upper stories because they do not have two means of egress. In response, some states have implemented building code changes to permit such reuse (Listokin 1995).[11] These regulatory reforms and the programmatic and other recommendations described earlier will further preservation's contribution to housing and economic development. It is hoped that this article will foster discussion of what has been accomplished and what remains to be done.

Authors

David Listokin is a Professor at the Rutgers University Center for Urban Policy Research and teaches a course on historic preservation at the Harvard University Department of Urban Planning and Design.

Barbara Listokin teaches a graduate historic preservation class at the Rutgers University Department of Urban Planning and Policy Development.

Michael Lahr is an Assistant Professor at the Rutgers University Center for Urban Policy Research and is a specialist in economic impact analysis.

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[11] Such code changes would address the problem described earlier of rehabilitation being thwarted in a Trenton historic building because an exterior fire escape was inappropriate. Under the new code, the fire escape would not be necessary.

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